

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /117 W

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R 061338Z JAN 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1927

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

USDEL MTN GENEVA

AMCONSUL ZURICH

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DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEKS OF DEC 21 - JAN 3

1. SUMMARY: IN THE TWO-WEEK HOLIDAY PERIOD COVERED BY THIS REPORT THE DOLLAR WEAKENED SLIGHTLY IN A QUIET MARKET WHILE GOLD PRICES FELL IN MORE ACTIVE TRADING. AT THE YEAR'S END BOTH THE MONEY AND CAPITAL MARKETS WERE VERY LIQUID AND INTEREST RATES CONTINUED TO DELCINE. IN A PRESS INTERVIEW, SNB PRESIDENT LEUTWILER INDICATED THAT SWITZERLAND WILL FOLLOW A FLEXIBLE MONETARY POLICY IN 1976. HE EXPECTS THE BEGINNING OF AMODEST ECONOMIC

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RECOVERY DURING THE YEAR. IN A NEW YEAR'S DAY TELEVISION

ADDRESS, PRESIDENT GNAGI SAID THE PRIORITY TASKS FOR THE GOS IN 1976 WOULD BE TO CONTINUE FIGHTING INFLATION WHILE MAINTAINING A HIGH LEVEL OF EMPLOYMENT. DURING NOV THE NUMBER OF UNEMPLOYMENT AND SHORT-TIME WORKERS ROSE WHILE CONSTRUCTION ACTIVITY CONTINUED TO CONTRACT.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: IN THE SIX TRADING DAYS OF THIS TWO-WEEK HOLIDAY PERIOD (THE BANKS WERE CLOSED DEC 25-26 AND JAN 1-2) THE SPOT DOLLAR FLUCUATED DOWNWARD IN A THIN AND RELATIVELY QUIET MARKET. THE SF CONTINUED VERY STRONG AGAINST THE DM. THE GOLD MARKET WAS SOMEWHAT MORE ACTIVE THAN FOREIGN EXCHANGE AND PRICES DECLINED. RATES AS FOLLOWS:

	12/22(OPEN)	12/31(CLOSE)
SPOT DOLLAR	SF 2.6220	SF 2.6185
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	- 2.6	- 3.4
2 MONTHS	- 2.8	- 3.2
3 MONTHS	- 3.1	- 3.1
6 MONTHS	- 3.4	- 3.4
12 MONTHS	- 3.2	- 3.2
SF/DM	SF 100.22	SF 99.55
GOLD	\$142.50	\$140.25

3. MONEY AND CAPITAL MARKETS: AT THE YEAR'S END BOTH THE MONEY AND CAPITAL MARKETS WERE STILL VERY LIQUID. THE BANKS HAD NO PROBLEMS WITH THEIR DEC 31 POSITIONING, AND THE CALL MONEY RATE WAS UNCHANGED AT 0.5 PERCENT THROUGHOUT THE REPORTING PERIOD. THE GENEROUS SUPPLY OF LIQUIDITY IS DUE TO MONEY CREATED BY SWISS NATIONAL BANK FOREIGN EXCHANGE INTERVENTION COUPLED WITH A RELATIVELY EAST MONETARY POLICY. WHILE LIQUIDITY IS IN GOOD SUPPLY, THE RECESSION HAS DAMPENED THE DEMAND FOR CREDIT AND INTEREST RATES CONTINUED THEIR DOWNWARD TREND. EFFECTIVE JAN 1, THE BANKS CUT THEIR PRIVATE DISCOUNT RATE FROM 5.5 TO 5.0 PERCENT (THE RATE WAS 7.0 PERCENT AT THE END OF 1974)., AND THE DISCOUNT RATES ON STOCKPILING BILLS UNCLASSIFIED

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WERE REDUCED BY 0.25 PERCENTAGE POINT TO 3.0 PERCENT FOR BILLS TO FINANCE THE COMPULSORY STOCKPILING OF FOODSTUFFS AND ANIMAL FEEDS AND TO 3.25 PERCENT FOR OTHER COMMODITIES. THE FEDERAL COUNCIL HAS DECIDED TO CUT THE RATE ON FOUR-YEAR CONFEDERATION DEBT CERTIFICATES FROM 7.25 TO 6.0 PERCENT, AND THE RATE ON 8-YEAR CERTIFICATES FROM 7.75 TO 6.5 PERCENT. ON THE LAST DAY OF 1975 THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS WAS 5.81 PERCENT, DOWN

FROM 5.87 PERCENT ON DEC 24. THE DECLINE IN INTEREST
RATES HAS RENEWED INVESTOR INTEREST IN CORPORATE
STOCKS. DURING 1975 SWISS STOCK MARKETS RECORDED
A RECORD VOLUME OF TRANSACTIONS AND PRICES RECOVERED
MOST OF THEIR 1974 LOSSES. ON DEC 31, 1975,
THE SKA INDEX WAS 197.8 (END 1959 EQUALS 100), UP FROM
150.0 AT THE END OF 1974 (BUT STILL SHORT OF THE 234.1
LEVEL AT THE END OF 1973).

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4. INTERVIEW WITH SNB PRESIDENT: IN AN INTERVIEW
PUBLISHED BY A BASEL NEWSPAPER, SNB PRESIDENT LEUTWILER
SAID THE NATIONAL BANK HAD NO INTENTION AT PRESENT OF
EITHER BUYING OR SELLING GOLD, BUT HE WOULD NOT RULE OUT

THE POSSIBILITY OF FUTURE GOLD TRANSACTIONS. THE SNB DOES NOT PLAN TO ALTER THE BOOK VALUE OF PRESENT GOLD STOCKS. (SF 142.94 PER OUNCE OR \$35 PER OUNCE AT THE MAY 9, 1971, PARITY OF SF 4.084 PER DOLLAR). ACCORDING TO DR. LEUTWILER, SWISS MONETARY POLICY WILL BE ADJUSTED TO THE NEEDS OF THE ECONOMY DURING 1976. GIVEN THE CURRENT HIGH LEVEL OF LIQUIDITY AND THE CORRESPONDING INFLATIONARY POTENTIAL, DR LEUTWILER SAID THE SNB IS UNCLASSIFIED

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PREPARED TO TIGHTEN ITS CONTROL OF THE MONEY SUPPLY THROUGH HIGHER RESERVE REQUIREMENTS AND OPEN MARKET OPERATIONS IF NECESSARY. INTEREST RATES ARE EXPECTED TO CONTINUE DECLINING WELL INTO 1976. WORKING WITH THE FINANCE MINISTRY, THE SNB HAS MADE ARRANGEMENTS TO FINANCE THE PUBLIC SECTOR'S EXPECTED SF 3 BILLION DEFICIT WITHOUT ADVERSE REPERCUSSIONS ON INTEREST RATES AND WITHOUT ADDING TO INFLATIONARY PRESSURES. DR LEUTWILER PREDICTED THAT IMPROVED ECONOMIC CONDITIONS IN THE U S WOULD RESULT IN A STRONGER DOLLAR IN 1976, BUT THE SF WOULD PROBABLY REMAIN RELATIVELY STRONG AGAINST OTHER EUROPEAN CURRENCIES. THIS WILL MEAN THAT CURRENT RESTRICTIONS ON CAPITAL INFLOWS ARE LIKELY TO REMAIN IN FORCE FOR SOME TIME TO COME, BUT NO NEW RESTRICTIONS ARE ANTICIPATED. DR LEUTWILER SAID HE EXPECTED 1976 WILL BE A DIFFICULT YEAR WITH THE RECESSION INTENSIFYING IN SOME SECTORS, BUT THE YEAR SHOULD ALSO WITNESS THE BEGINNING OF A MODEST ECONOMIC RECOVERY.

ECONOMIC

5. PRESIDENT'S NEW YEAR'S DAY MESSAGE: IN THE TRADITIONAL NEW YEAR'S DAY SPEECH BY THE INCOMING PRESIDENT OF THE CONFEDERATION, FEDERAL COUNCILOR GNAGI DEVOTED MOST OF HIS BRIEF TELEVISION ADDRESS TO ECONOMIC MATTERS. HE SAID THAT THE CURRENT DEEP RECESSION, AFTER SO MANY YEARS OF ECONOMIC EXPANSION, HAS REVEALED THE NEED FOR CHANGES IN SWISS POLITICAL AND SOCIAL INSTITUTIONS. A RESTRUCTURING OF SOME SECTORS OF THE ECONOMY IS NECESSARY, AND PRESIDENT GNAGI APPEALED TO THE SWISS PEOPLE FOR SACRIFICE AND SOLIDARITY IN THE DIFFICULT TIMES AHEAD. HE OUTLINED TWO PRINCIPAL TASKS FOR THE GOVT IN THE COMING YEAR: 1) A CONTINUATION AND STRENGTHENING OF THE SO-FAR SUCCESSFUL FIGHT AGAINST INFLATION AND 2) MAINTENANCE OF A HIGH LEVEL OF EMPLOYMENT, PARTICULARLY AMONG THE YOUNG. THE PRESIDENT STATED THAT NEW MEASURES TO STIMULATE THE ECONOMY AND TO CREATE NEW JOBS MUST BE TAKEN AS QUICKLY AS POSSIBLE. HE ALSO SAID THAT THE FEDERAL, CANTONAL, AND MUNICIPAL GOVTS WILL HAVE TO WORK TOGETHER TO RESOLVE THE PROBLEM OF FINANCING THESE NEW MEASURES

6. UNEMPLOYMENT UP AGAIN: THE NUMBER OF OFFICIALLY UNEMPLOYED
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ROSE 28 PERCENT DURING NOV TO REACH A TOTAL OF 20,316 AT THE END
OF THE MONTH. THIS IS ABOUT 0.7 PERCENT OF THE LABOR FORCE.
THE NUMBER OF WORKERS ON SHORT TIME ALSO ROSE FROM 113,344 IN
OCT TO 117,577 (ABOUT 3.9 PERCENT OF THE WORK FORCE) IN NOV.

7. CONSTRUCTION INDUSTRY: THE VALUE OF CONSTRUCTION
WORK IN SWITZERLAND DURING THE THIRD QTR OF 1975
WAS 26.6 PERCENT LESS THAN DURING THE SAME PERIOD IN
1974. IN THE FIRST 9 MONTHS OF 1975 THE YEAR-TO-
YEAR DECLINE IN THE VALUE OF BUILDING WORK COMPLETED
WAS 20.7 PERCENT AND NEW ORDERS WERE DOWN 27.1 PERCENT.
AT THE END OF SEP 1975 THE BUILDING INDUSTRY'S LABOR FORCE
TOTALLED 19,949, A DECREASE OF 23.6 PERCENT FROM A YEAR EARLIER.
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